MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1614, 2016 / 2017

BAC7054 - ADVANCED FINANCIAL STRATEGY

(MACC Weekend)

9 OCTOBER 2016
10.00 AM - 1.00 PM
(3 HOURS)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FIVE (5)** printed pages excluding cover page.
2. Answer **ALL** questions.
3. Marks are shown at the end of each question.

Question 1 (20 Marks)

a) The following are the financial statement of XYZ Limited for the next 5 years:

Year	0	2001	2002	2003	2004	2005
Incremental Earnings Forecast (RM'000S)						
Sales		25200	25200	25200	25200	
Cost of Goods Sold		(9500)	(9500)	(9500)	(9500)	
Gross Profit		15700	15700	15700	15700	
Selling general and administrative		(3000)	(3000)	(3000)	(3000)	
Research and development	(17000)					
Depreciation		(2500)	(2500)	(2500)	(2500)	(2500)
EBIT	(17000)	10200	10200	10200	10200	(2500)
Income tax (40%)	6800	(4080)	(4080)	(4080)	(4080)	1000
Unlevered net income	(10200)	6120	6120	6120	6120	(1500)
Additional information:						
Depreciation		1500	1500	1500	1500	1500
Capital Expenditures	(8500)					2100
Increases in Net working capital		(2100)				
Free Cash Flows(RM'000s)	(18700)	5520	7620	7620	7620	2100

If the cost of capital is 12% calculate the net present value of XYZ Limited.

(10 marks)

b) A company is considering a project that would cost RM 100,000 to be financed 50% by equity (cost 21.6%) and 50% by debt (pre-tax cost 12%). The financing method would maintain the company's WACC unchanged. The cash flows from the project would be RM 36,000 a year in perpetuity, before interest charges. Tax is at 30%. Appraise the project using the NPV method.

	Cost (%)	Weighting	Product (%)
Equity	21.6	0.5	10.8
Debt (70% of 12%)	8.4	0.5	4.2
		WACC	15.0

(10 marks)

Continued...

Question 2 (20 Marks)

Currently shareholders' wealth maximization is the major goal of ABC Limited. Nonetheless the directors think that management should also give emphasis on several factors that influence firms operating activities such as:

a) Cash flow generation
b) Profitability as measured by profits after tax and return on investment
c) Risk adjusted returns to shareholders
d) Performance improvement in a number of areas such as concern for the environment, employees' remuneration and quality of working conditions and customer satisfaction

Required:
Provide the managing director (MD) with a report for the presentation at the next board meeting which evaluates the argument that maximization of shareholder wealth should be the only true objective of the company, and discuss the advantages and disadvantages of the MD's suggestions about alternative goals.

(20 marks)

Question 3 (20 Marks)

a) ABC Corporation purchased commercial paper when it was issued on 30th April maturing in 122 days. The paper has a face value of $5 million and a yield to maturity of 10%. How much will ABC Corporation have to pay for the commercial paper? (Assuming 360 days in a year).

(4 marks)

b) Consider a Sterling CD with a face value of £1,000,000 issued on 1st March 2018 maturing in 184 days. The coupon is 7% per annum. Calculate the maturity value of the CD. (Assuming 365 days in a year)

(4 marks)

Continued...

c) As the new financial controller of ABC group, you are required to calculate the Economic Value Added (EVA) of this company as discussed in the meeting.

	2018	2017
	RM	RM
Sales		2500
Expenses Other than Interest		(740)
Depreciation		(450)
Earnings before interes and after taxes (EBIT)		1310
Taxes on EBIT@40%		(524)
Earnings before interest and after taxes (NOPAT)		786
Current assets less excess cash and securitites	700	420
Non interest bearing current liabilities	(100)	(100)
Adjusted net working capital	600	320
Gross, property, plant and equipment	3200	3380
Accumulated depreciation	(1000)	(1300)
Net property, plant and equipment	2200	2080
Invested capital	2800	2400
Return on invested capital (EBIAT/ Invested Capital) Based on previous year's invested capital	28.07%	

Assuming that the cost of capital is 10% calculate the EVA of this company.

(12 marks)

Question 4 (20 Marks)

a) Define management buyouts and the reasons for companies to practice management buyouts.

(6 marks)

b) Differentiate between business reorganization and reconstruction.

(8 marks)

Continued...

c) The managing director is aware of the Z-score method of predicting corporate failure which is calculated using the following formula:

$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$
Where:
x_1= Working Capital/Total Assets
x_2= Retained Earnings/Total Assets
x_3= Earnings before interest and tax /Total Assets
x_4= Market Value of Equity/ Book Value of Debt
x_5= Turnover/Total Assets

Assuming that the following information is given (RM'000m):
Working capital = (15)
Total asset =422
Earnings before interest and tax= 28
Retained earnings =(1)
Market value of Equity = 295.96
Book value of Total Debt =159
Turnover =403

As the Finance Director, you are required to calculate ABC's Limited's Z-score for the year ended 31 December 2018.

(6 marks)

Question 5 (20 Marks)

a) i) As the research analyst of an investment bank, discuss the lifecycles of dividend policy and its relations to firms' external and internal funding, capacity to pay dividends and firms' growth.

(4 marks)

ii) If a firm need to pay its dividend, what is the consideration used in making those decisions?

(4 marks)

b) i) Suppose that on November 2, 2016, a Malaysian company sold goods to a German company for €1=$1.170. On that same day, the Malaysian company entered into a forward contract to sell € 100,000 in 90 days at €1= $1.172. What is the effect of the fluctuations in the exchange rate on the revenue gained by the Malaysian company?

(4 marks)

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b) Assuming you are United States (US) based company trading with a European counterpart with an account receivables value of €100,000. The European company intend to pay you in three months' time €100,000. If you enter a forward contract at €1=$1.196 and the spot rate of Euros after three months has depreciated to €1=$1.18. Discuss the implication of the US company action?

(8 marks)

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